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Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

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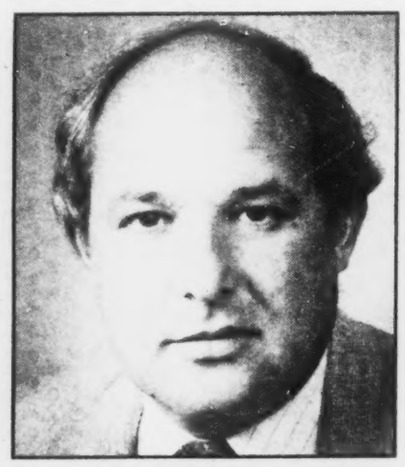
Robert A. Kendig



Robert A. Rubinoff

Best Repositions Core Biz In Bid to Cure Stagnation

RICHMOND — Best Products plans to make some "fundamental changes" in its core catalog business this year as the latest step in an intensive, ongoing effort to revive the stagnant company.

The three-tiered plan will see the $2.2 billion company:

- Cutting back its merchandising to just jewelry and core hard lines categories to become a discount specialty retailer that matches customers' perception of the chain;
- Realigning its advertising to place greater emphasis on media that can be targeted to specific audiences like newspapers, TV and seasonal mini-catalogs to offset the reduced impact of the annual catalog and monthly flyers;
- Enhancing customer services by providing more trained salesclerks on the selling floor, along with more rapidly delivering clipboard ordered goods to shoppers to speed up the checkout process.

Best now describes itself as a discount retailer, rather than a catalog showroom, and the development and execution of the strategic plan is the key final step in Best's expensive and extensive restructuring to live up to that marketing stance.

The repositioning during the past three years has already seen Best remodel and upgrade about 50 showrooms to sharpen its focus on jewelry and other high margin categories, relocate scattered offices and regional operations into a recently expanded headquarters, sell the ailing Ashby's apparel specialty store chain (see separate story) and close 17 unprofitable Best stores.

(Continued on page 53)

Power Players on Both Coasts Vie for CE Market Dominance

CE Chains Thrive, Boost Market Share in Price-Driven N.Y.

NEW YORK — The major consumer electronics specialty chains are the fastest growing segment of the intense, $3.5 billion Metro New York consumer electronics market.

Trying to get the biggest chunk of the business are: Newmark & Lewis (42 stores); Crazy Eddie (31 stores); SaveMart (24 stores); Brick Church Appliance (20 stores); The Wiz (19 stores); P. C. Richard & Son (18 stores), and Trader Horn (15 stores).

To compete in such a fast moving market as New York, each player tries to be more aggressive than the next. Expansion plans include: Crazy Eddie has eight more stores on the drawing board, Newmark & Lewis plans six to 10 new openings this year, and The Wiz said it will open 10 new stores in 1987.

Because New York is such a fast-paced, price-driven market, the smaller independent dealers are falling by the wayside, claims Warren Hyman, Newmark & Lewis chairman.

To generate the pricing needed to remain competitive, retailers have to purchase large quantities, committing themselves to large inventories three to six months in advance. Backup is important, because New York shop-

(Continued on page 62)

Key CE Players For Greater N.Y. Market

Chain	Number of Stores
Newmark & Lewis	42
Crazy Eddie	31
Savemart	24
Brick Church	20
The Wiz	19
P. C. Richard & Son	18
Trader Horn	15

Source: DSN *research*

Circuit City Entry Heats Up Competition in San Francisco

Greater San Francisco Area CE Chains

Chain	Bay Area Stores	Total U.S. Stores
The Good Guys	12	12
Circuit City	10*	88
The Federated Group	4	62

*By end of 1987

Source: DSN *research*

SAN FRANCISCO — The planned entry of 10 Circuit City superstores here by the end of 1987 could shake up the roster of CE retailers in the $700 million San Francisco-San Jose consumer electronics market.

The line-up in the Bay Area of major players are: The Good Guys, a strong San Francisco-based CE chain of 12 stores and one clearance center; The Federated Group, which operates four stores in the area and is scheduled to open a new store in Colma in February, and Macy's department store.

Circuit City Stores, which generated $705 million in sales last year and already has rung up sales of $654 million through the third quarter ended Nov. 30, 1986, will open it's first seven superstores by the second half of 1987.

Following the entry of the 88-store Richmond, Va.-based Circuit City into the $2-billion greater Los Angeles market in November 1985, the chain has opened 17 stores and become one of the top CE chains in the market. The 62-store City of Commerce,

(Continued on page 62)

Buyers Emphasize Style

Gold Circle Develops 'Unique' Lines To Create Distinctive Chain Identify

By MARY ELLEN KELLY

WORTHINGTON, Ohio — The homogeneous tide of merchandise that floods the discount marketplace, making one chain almost identical to another, might be leaving some customers indifferent to which discount chain they shop.

Swimming against that tide, Gold Circle buyers have put on vendors' hats and developed new lines, primarily in the housewares category, to differentiate their assortment from the mainstream merchandise that prevails in competing stores.

In November, the chain launched its "Unique Merchandise" program, changing the store's hard lines assortments in terms of color pallet and, to a lesser extent, item.

"Unique Merchandise works in conjunction with the development of our prototype stores, challenging buyers to go to their resources for fashion colors above and beyond the normal assortment," said Al Thompson, vice president, marketing.

"We wanted new and different colors to stimulate sales by attracting customer attention. In some cases, the colors themselves are selling well. In other instances, they serve to pull shoppers into the department, even though it isn't what they end up buying," Thompson explained.

(Continued on page 45)

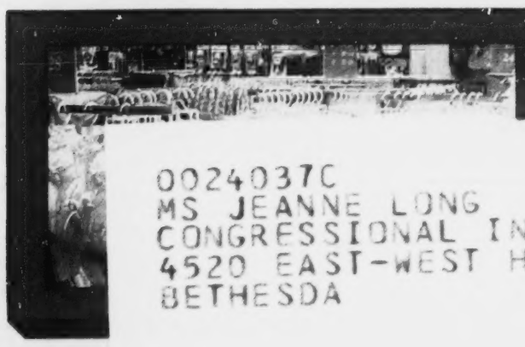
Best Divests Ashby's

NEW YORK — Fifth Avenue Cards, a multi-divisional specialty retailing company, has reached an agreement with Best Products Co., of Richmond, Va., to buy its ailing 32-unit women's discount apparel chain, Ashby's Ltd.

Best announced earlier this year that it planned to divest Ashby's as part of a plan to regain the parent company's profitability. Ashby's had sales of about $33 million in 1985, with a pre-tax loss of $3.5 million.

Last February, Fifth Avenue purchased the Kellwood Co.'s 100-unit discount apparel chain, Ashley's Outlet Stores, based in St. Louis, Mo. The combined acquisitions "will make Fifth Avenue a major discount retailer in the Southeast with total revenues aproaching $100 million," chairman and president Hal J. Upbin said. Ashley's sales for 1985 were about $40 million.

No changes in the Ashby's management are planned, Upbin said. Fifth Avenue refused to comment at presstime on the possibility of combining the two chains.



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MARKETWATCH

Best Tests Catalog Sales Kiosks in Safeways

RICHMOND — Best Products and Safeway are jointly testing catalog kiosks in 10 supermarkets in Virgina as a way for both retailers to augment their business. In the test, which runs until the end of January, supermarket shoppers use a phone that is online to Best's Telemail center in Ashland, Va., to order goods from the catalog. Customers pay by credit card and receive goods within three days via UPS.

Luria Swallows 'Poison Pill' Defense

MIAMI LAKES, Fla. — L. Luria & Son has completed a stock exchange offer intended to make the cataloger less vulnerable to a hostile takeover. In the offer, over 1.9 million common shares were exchanged on a one-for-one basis for a new Class B stock that has 10 votes per share. Company officers, directors and their families hold most of the Class B shares and control about 81.3% of the votes that can be cast on all company business other than the election of directors.

Pic 'N' Save Joins Century Club

LOS ANGELES — Closeout chain Pic 'N' Save Corp. has opened its 100th store in Provo, its fifth Utah location. The new 20,000-sq.-ft. facility joins the three Salt Lake City and one Ogden Pic 'N' Save stores already in operation. Also sharing those markets are numerous Fred Meyer and K mart stores.

Fred Meyer Spreads Christmas Cheer

PORTLAND — Fred Meyer Inc. has donated more than $412,000 worth of food, clothing, toys and household items to The Salvation Army and The Sunshine Division in its Northwestern trading area. The eleven cities selected to receive this merchandise include Seattle, Eugene, Portland and Boise. The holiday donation tradition was initiated 60 years ago by the company's founder, Fred G. Meyer, who used to hand-deliver food baskets to needy families.

Value Club Folds Austin Warehouse Units

SAN ANTONIO, Texas — Value Club, the membership warehouse club, has closed its two Austin, Texas, locations because they fell short of expected sales levels, a company official disclosed. The company continues to operate four clubs, three in San Antonio and one in El Paso.

FOR THE RECORD

Following are corrections and clarifications of information reported on K mart in the December 8 issue.

On page 38, in the story on financial services, Jon M. Hartman was named to the post of director of financial resources in May 1984. It was also in 1984, not 1985, that K mart made a deal with Standard Federal to offer banking services in Texas and Florida stores.

On page 57, in the story on Builders Square, the home improvement chain now has 63 units, with 35 more planned.

On page 65, in the story on Waldenbooks, the bookstore chain now has over 1,000 units and 23 Readers Market departments. Waldenbooks & More is a 7,500-sq.-ft. department.

On page 83, in the story on technology, the first para-

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Gray Market Importers Face Major Assault on Supply Lines

WASHINGTON, D.C. — The international "gray market," an increasingly important alternative supply source for the nation's discount chains and other off-price retailers, could be shut down altogether within months as a result of a multi-front assault on "parallel importers" in Washington.

The most immediate threat to the continued availability of genuine, but "unauthorized" merchandise, imported on the so-called gray market is a ruling by a Federal appeals court in Washington that invalidated long-standing Customs Service rules permitting parallel importation.

In that case, which now faces a go-for-broke showdown at the U.S. Supreme Court, attorneys for K mart and other major sellers of gray market goods are locked in a battle to preserve the industry's off-shore supply lines.

On the opposite side of the issue is Coalition to Preserve the Integrity of American Trademarks (COPIAT), an organization of multinational manufacturers seeking to avoid price competition on their own products from independent parallel importers.

At the center of the dispute: a controversial Customs Service regulation that for years has allowed the parallel importation of brand name merchandise, despite objections from foreign manufacturers.

Although the U.S. Tariff Act permits U.S. trademark holders to enlist the aid of the Customs Service to exclude imports of their products by unauthorized parties, the agency's regulations specifically deny this right to foreign manufacturers and their U.S.-based corporate relatives.

Although this rule has been upheld in a series of court cases, the D.C. appeals panel broke with precedent last summer and ruled that Customs' pro-gray market regulation violates the Tariff Act.

The issue before the Supreme Court now is whether Congress intended that 50-year old law to protect foreign manufacturers, as well as American manufacturers.

Lawyers for K mart and such pro-parallel import groups as the American Consumer Trade Council and the American Free Trade Association, agree that a ruling in favor of COPIAT would enable foreign producers to gain a monopoly over the sale of their products in this country and result in higher prices for U.S. consumers on some $6 billion worth of "gray market" goods.

But even if the pro-parallel import forces prevail in that High Court showdown, gray market imports will remain under heavy siege both in Congress and within Federal regulatory agencies.

COPIAT and other opponents of parallel importation repeatedly have attempted to secure Federal legislation to curb "gray goods," and these attempts often have taken the form of last minute amendments to important trade or revenue bills.

The most recent of these maneuvers narrowly failed late last year when a ban on gray market liquor imports was stripped from a critical government appropriations bill during the final hours of the 99th Congress.

Congressional supporters of parallel imports are again likely to be active in '87. Last year Sen. John Chafee (R-RI) sponsored legislation to preserve the Customs Service gray market rules, and a similar bill is likely to surface again this session.

It's questionable, however, whether those parallel import regulations will be around to protect. The Customs Service is locked with at least a half-dozen Federal regulatory agencies in a six-way tug-of-war that could seal the gray market's fate.

DSN 25th ANNIVERSARY TRIVIA QUIZ: 1962

Discounting's "finest year," as described in Volume 1, No. 1 of this publication, Jan. 1, 1962, saw Korvette wanting to "upgrade," which might have been read as the first seeds of failure for the then the No. 1 discounter.

It was a year of transition. Many other top names of those pioneer days, such as Community, Towers and Arlan's, are no longer around, while many of today's giants were just getting started in 1962.

In our first issue, editor-in-chief Godfrey Lebhar wrote in an editorial that "the day of the long margins in general merchandise retailing is clearly over."

DSN *invites you to test your recall of this vintage industry year with the questions that follow. As part of our 25th anniversary,* DSN *is offering a $100 prize to the person who correctly answers the most questions.*

Please type your answers, including your name, address and telephone number, on standard letterhead, and mail them to:

Quiz Editor-1/5,
Discount Store News,
425 Park Ave.
New York, N.Y. 10022

Winners and answers to each quiz will be announced in a future issue.

1. 1962—The discount store industry had just finished a record year with a total industry volume that was:
a) $1.5 billion;
b) $3 billion;
c) $4.25 billion.

2. The total number of stores in the industry, as reported for 1961, was a whopping:
a) 300 stores;
b) 700 stores;
c) 1,500 stores.

3. The aspiring industry association in 1962 was:
a) Mass Merchandising Research Foundation;
b) Mass Retailing Institute;
c) Association of Discount Merchants.

4. Among the supermarket chains going into discounting in 1962 was:
a) A & P (Price Savers);
b) Food Fair (J. M. Fields);
c) Jewel Tea (Turnstyle).

5. The biggest industry headache in 1962 was:
a) Financial resources;
b) Sunday closing blue laws;
c) Competing variety stores.

25 25TH ANNIVERSARY YEAR

6. Which leased apparel department operator went into K mart and later was absorbed by that chain?
a) Rockower;
b) Holly Stores;
c) Parkview.

7. Which traditional variety store chain did not open its first discount store in 1962?
a) Woolworth;
b) Kresge;
c) McCrory.

8. Among the pioneer specialty discounters in 1961 was:
a) Crazy Eddie;
b) Kiddie City;
c) Herman's.

9. According to the Toy Manufacturers Association, what percentage of toy business did the discount store industry do in 1961?
a) 2%;
b) 7%;
c) 10%.

10. One pioneer "closed door" membership store opening its doors during 1962 was:
a) Gemco;
b) Fedco;
c) Fedmart.

11. Which landlord-lessee court battle caused shock waves throughout the industry and signaled a shakeout on the lessee side of the business?
a) GEM vs. Parkview;
b) Towers Marts vs. Grayson Robinson;
c) Woolco vs. Rockower.

12. Which major discount chain opened a posh, 184,000-sq.-ft. store, replete with chandeliers, on Fifth Avenue in Manhattan?
a) K mart;
b) Korvette;
c) Masters.

Home Products

This display of blank videotape at K mart's new Wall, N.J., store, which stocks about six brands, is a perfect example of the competitiveness of the CE market.

Buyers Seek New CE Sales Builder at Las Vegas Show

Nationwide DSN Report

With the market for low-end video cassette recorders nearing saturation, discount store buyers say they will scour the coming consumer electronics show for a hot new product that will be as strong a performer as the VCR.

Buyers from leading discounters, including Jamesway, K mart, Ames and Venture, are heading for the show on an upbeat note following a healthy Christmas season for consumer electronics. For the most part, the consumer electronics department registered double digit sales gains—outpacing most other areas in the store. Privately, buyers said that the sales gains may have come, however, at the expense of gross margins since prices had to be slashed to keep up with encroaching competition from electronic superstores and wholesale clubs. Nevertheless, retailers entered 1987 with clean inventories.

Although few buyers and senior chain officials expect any surprises at the show, which kicks off Jan. 8 in Las Vegas, most plan to examine particular categories. Upgraded video cassette recorders and televisions, compact disc players, dual cassette tape players and anything with color or new styling head the list. Several buyers expect big things from a few categories staging comebacks, such as personal computers and video games. And a few hope to catch a glimpse of the new digital audio tape players—even if that high-tech equipment might take a few years to reach discount stores.

"We'll be looking at stepped-up VCRs for the consumer who bought at the low-end and is ready to give that one over to the kids and buy a more sophisticated one for himself," said Jamesway's buyer John Zurlo, based in Secaucus, N.J. "We're not afraid to go higher with price points."

Potential for High End Sales

Jamesway recently featured a four-head, 14-day, four-event JVC VCR for $359.99, a price too high for some discounters. Yet, Zurlo sees potential for the discount store customer who is more familiar with VCRs.

Zurlo remains unsure, however, whether the next step is stereo. "We still haven't decided on that one, but we are testing one stereo TV in 15 stores. People may be more likely to want stereo quality in the TV."

Video Marketing calculates that 36 million households own a VCR, and by 1990, penetration will reach 67.3%, or 63.3 million homes. To keep growth strong, retailers will have to court customers who are ready to buy a second unit. Some retailers said this signals a boom in video cassette players (VCPs).

(Continued on page 33)

Blank Videotape Competition Boils; Brand Mix Drops

By JOSEPHINE FIAMINGO
Nationwide DSN Report

The competition in the $1 billion blank videotape market is getting hotter. The key question is which manufacturers' promotional approach will retailers support, especially since the number of brands carried by most discounters has dropped to about four.

Said Joe Schirtzinger, videotape buyer for Worthington, Ohio-based Gold Circle, "When we started stocking videotape we wanted to maximize the business with a large selection of brands, but it is not realistic to go forward with as many brands.

"From our research we found there is a real correlation between the audio tape and videotape customer who wants to buy both products of the same brand," noted Schirtzinger. "This is why we are dropping brands that do not offer an audio tape program along with their videotape offerings."

Gold Circle now carries standard videotape brands—3M, TDK, JVC, Memorex, Polaroid and Kodak—and high-grade in TDK and 3M—in all stores. The chain said it will be dropping Polaroid and Kodak.

Most sales for blank videotape are still in the standard grade, the basic commodity item used as a traffic builder and highly promoted as such by retailers. Sales for the high-grade videotape were stronger in the beginning of 1986, said Schirtzinger, but are flattening out now due to rebates depressing prices of standard videotapes, along with a decrease in the units of upgraded hardware, with more low-end VCRs being sold and more entering the marketplace.

The low-priced, non-licensed goods have had a large impact on the videotape business. "You now see the no-name videotapes popping up all over the place, with 30 to 40 different manufacturers offering them at $1.99 and $2.99. This hurts the sale of branded goods," he said.

"We started in the fourth quarter selling Intermagnetics ATO standard T-120 VHS videotape promoting it at $2.99 with a $1 rebate because we needed the price point," he said. "We can't stand by and not react to what is happening in the marketplace. I expect there will be more rebates from brand names."

Schirtzinger said that rebates show more value to the consumer than a multi-pack with a free tape offer. Sony offers one where you buy five standard size tapes at $4.99 and get one high grade free. It carries a possible retail to the consumer of $3.99 for all six tapes.

"You still have to mail it in with

(Continued on page 35)

MARKETWATCH

PUERTO RICO — **47th Street Photo,** the New York City-based discount camera and consumer electronics chain, recently began selling its products here on Channel 13, a VHF station. It is the chain's first venture into home shopping. The program is aired three nights a week from 11 p.m. to 1 a.m.

* * *

MINNEAPOLIS, Minn. — **Best Buy Company**, which opened 11 superstores in the past six months, bringing the total number of units to 23, is continuing its aggressive growth plans in 1987. The store opening binge began last July and ended with five stores, averaging about 28,000 sq. ft., opening in November—three units in Milwaukee, Wis., and one unit each in Iowa City and Des Moines, Iowa. Richard Schulze, president of the consumer electronics chain, said that in 1987 six superstores are planned in Wisconsin plus additional stores in St. Louis and Kansas City. The first new store will open in February in Moline, Ill.

* * *

LOS ANGELES — **The Federated Group**, the 42-unit consumer electronics retailer, and Greenleaf Video, a mail order video company, recently joined forces in a new merchandising venture. Federated is distributing 35,000 copies of Greenleaf Video's holiday catalog featuring 2,500 titles of pre-recorded videocassettes. A special display with point-of-purchase signage was used. At presstime, results of the project were not available. Federated refused to divulge details of its financial agreement with Greenleaf Video.

* * *

BURLINGTON, Vt. — **Artec Inc.**, a major Northeast video software distributor, has opened a 12,000-sq.-ft. distribution center in the Long Island City section of New York City. The facility will be used to service Metro New York retailers.

* * *

NEW YORK — **The International Fair for Home Appliances**, Household Technology and Kitchens will be held February 10 to 13 in Cologne, West Germany. According to Hans Teetz of the German American Chamber of Commerce, over 600 firms from 34 countries will exhibit their products.

* * *

CHICAGO — It looks like a record year for the major appliance industry, according to a report by the Association of Home Appliance Manufacturers (AHAM). For the first 10 months of 1986, 37.8 million units were shipped setting a record for the period. If that pace continued through year-end, said AHAM president Robert Holding, over 44 million units will be shipped in 1986, up from 41.8 million units in 1985.

Buyers to Scour Vegas CE Show For New Winner

(Continued from page 21)

Alan Close, assistant vice president, merchandise manager, hard lines at Ames Dept. Stores in Rocky Hill, Conn., said his chain is testing VCPs. The price points are perfect for discounters, and the item is an easy answer when a family needs a second video player, Close said.

For some, the real activity in the video area is not the hardware but rather the software. Pre-recorded video tapes, items retailers never dreamed would sell since shoppers could rent them cheaply, were a hot item last Christmas.

Chains such as Jamesway, Target and K mart are creating day in, day out 10-ft. to 20-ft. video departments offering both public domain and frontline videos. Video Marketing reported that sales of prerecorded tapes are projected to grow 28% a year to $4.1 billion by 1990.

"We've increased our selection from a small spinner rack used in Christmas 1985 to as much as 20 ft. in all of our stores," said K mart's senior buyer, Craig Ortale. "We expect the frontline titles will drop even lower than $20, and that will really open things up." About 90% of K mart's units are rack jobbed by Handleman Company, based in Troy, Mich.

All of Target's 247 units carry prerecorded tapes, said spokesman David Houghtby. Target's internal jobber, called Jetco, supplies them. The chain stocks about 200 titles, and department sales should hit $21 million by 1987.

The Target mix is centered on low-priced, public domain and children's titles.

Video Games Are Back

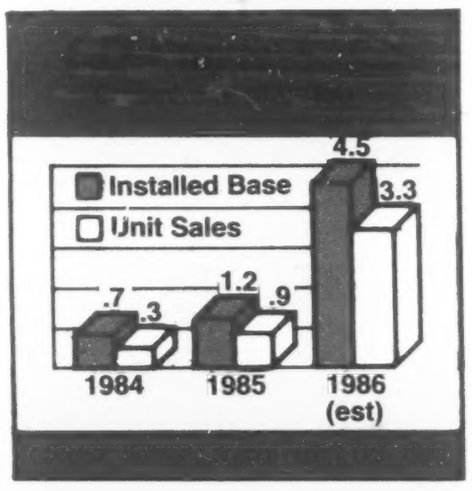
In another development, a new generation of video games has arrived on the scene and will be a strong force at the show. Just as retailers finally had cleared their inventory of the old generation of video games, left from the early 1980's, the category has made a stunning resurgence. "The hottest thing now," Ortale said, "is the Nintendo game."

Retailers credit Nintendo and Sega with breathing new life into the video game business by introducing improved graphics and more profitable systems.

Another category retailers hope they can rekindle—this time more profitably—is personal computers. Target, Venture, Caldor, Toys "R" Us and Federated are taking the plunge into the business with new IBM compatibles. One of the most visible of the entries is the Blue Chip model by Hyundai, retailing for $699. The Chandler, Ariz.-based Blue Chip firm, which is marketing the Korean-made computer, hopes to snare 5% of the personal home computer market this year. Arch rival Daewoo Telecom Co., with its

(Continued on page 34)

Discounters Still Await Compact Disc Boom

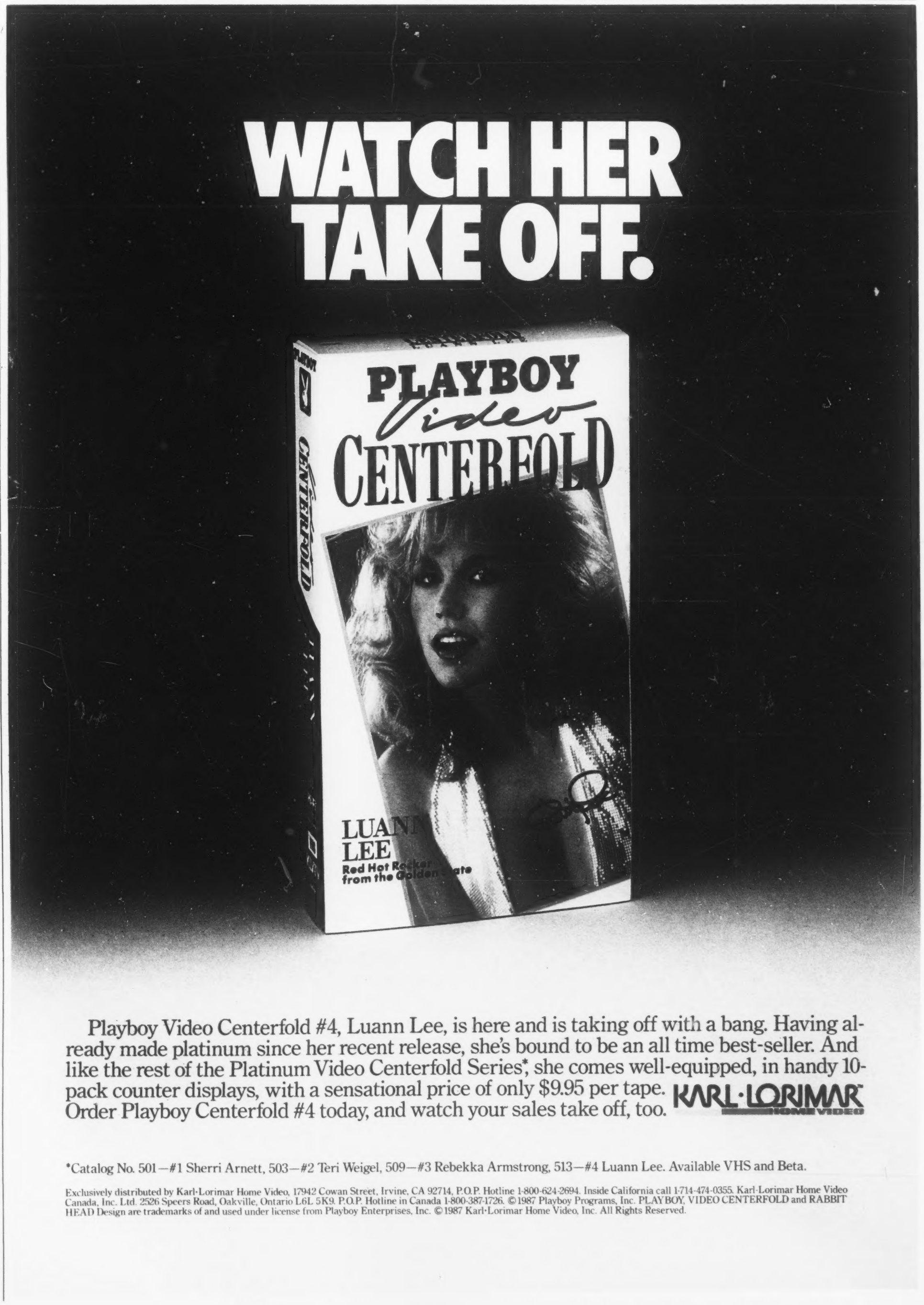


LAS VEGAS — Discount retailers hope they are not waiting for a boom that may never come in the compact disc (CD) market. The sales bonanza predicted last year when prices dropped below $150 has not materialized, and some fear CD sales may never rival the volume of the VCR business.

In addition, CD players are not brisk movers as components, but rather as an added bonus to rack systems, retailers said. Reportedly a severe glut of players is available, which means a $99 price point may not be a shock to see at discount stores nationwide.

Billboard magazine found that U. S. disc unit sales increased to $22.6 million in 1985 from $5.8 million in 1984. Sales for the first half of 1986 totaled $18.6 million, more than double the $7.5 million for the half of 1985. Based on that, more than 50 million units may be shipped in 1986, which would be an increase of 120% over 1985.

But sales are being hampered by the limited supply of discs and their high cost, buyers said. Production of the discs is expected to increase from 10 million units in 1985 to 150 million by the beginning of 1988. And buyers worry that tight supplies mean prices will stay above $10 throughout the year.



Playboy Video Centerfold #4, Luann Lee, is here and is taking off with a bang. Having already made platinum since her recent release, she's bound to be an all time best-seller. And like the rest of the Platinum Video Centerfold Series*, she comes well-equipped, in handy 10-pack counter displays, with a sensational price of only $9.95 per tape. Order Playboy Centerfold #4 today, and watch your sales take off, too. KARL·LORIMAR HOME VIDEO

*Catalog No. 501—#1 Sherri Arnett, 503—#2 Teri Weigel, 509—#3 Rebekka Armstrong, 513—#4 Luann Lee. Available VHS and Beta.

Exclusively distributed by Karl-Lorimar Home Video, 17942 Cowan Street, Irvine, CA 92714, P.O.P. Hotline 1-800-624-2694. Inside California call 1-714-474-0355. Karl-Lorimar Home Video Canada, Inc. Ltd. 2526 Speers Road, Oakville, Ontario L6L 5K9. P.O.P. Hotline in Canada 1-800-387-1726. © 1987 Playboy Programs, Inc. PLAYBOY, VIDEO CENTERFOLD and RABBIT HEAD Design are trademarks of and used under license from Playboy Enterprises, Inc. © 1987 Karl-Lorimar Home Video, Inc. All Rights Reserved.

Buyers to Scour Vegas CE Show for Winner

(Continued from page 33)

Leading Edge clone, already has reached that level.

Some retailers cannot forget the sorry experience they had with computers before.

Jamesway and K mart, for instance, vow not to reenter the market too hastily and will wait until the items are more of a commodity. But Houghtby at Target said today's consumer now is more acclimated to computers from work and will be more likely to buy a computer for the home.

Retailers know that consumers can handle compact disc players—but are reluctant to buy them. Although movement has been promising at the discount level, there has not been the expected boom.

"CD player prices are coming down, and we are expanding," said Close, of Ames. "But the real surge probably won't happen until software falls under $9.99."

Moreover, CD players move best when teamed up as part of a rack system, rather than as a component, discounters said.

Mediocre sales to date of CD players have many buyers hoping to find vendors stuck with a glut of players, meaning low wholesale prices. A handful of discounters met the superstores with a $99 price on CD players last Christmas. But most kept prices in the $149 to $259 range.

Dual Cassettes Build Sales

More important than CD players in rack systems, buyers said, are dual cassettes, which are propelling sales in rack systems and boom boxes.

Consumer electronics in bright colors and pastels will make an even stronger performance at this year's show, buyers predict. "When you are dealing with mature items, you have to give the customer a new reason to buy. The only pitfall is you have to watch your inventory on the colors, because it adds so many sku's," Zurlo cautioned.

Retailers expect the new twist this year to be Eurostyling. Eurostyling, or sleek design inspired by European influences, has helped revive volume in housewares, and some buyers expect the same for consumer electronics. These new designs give retailers a chance to make slightly higher margins because consumers appear willing to spend more for the styling.

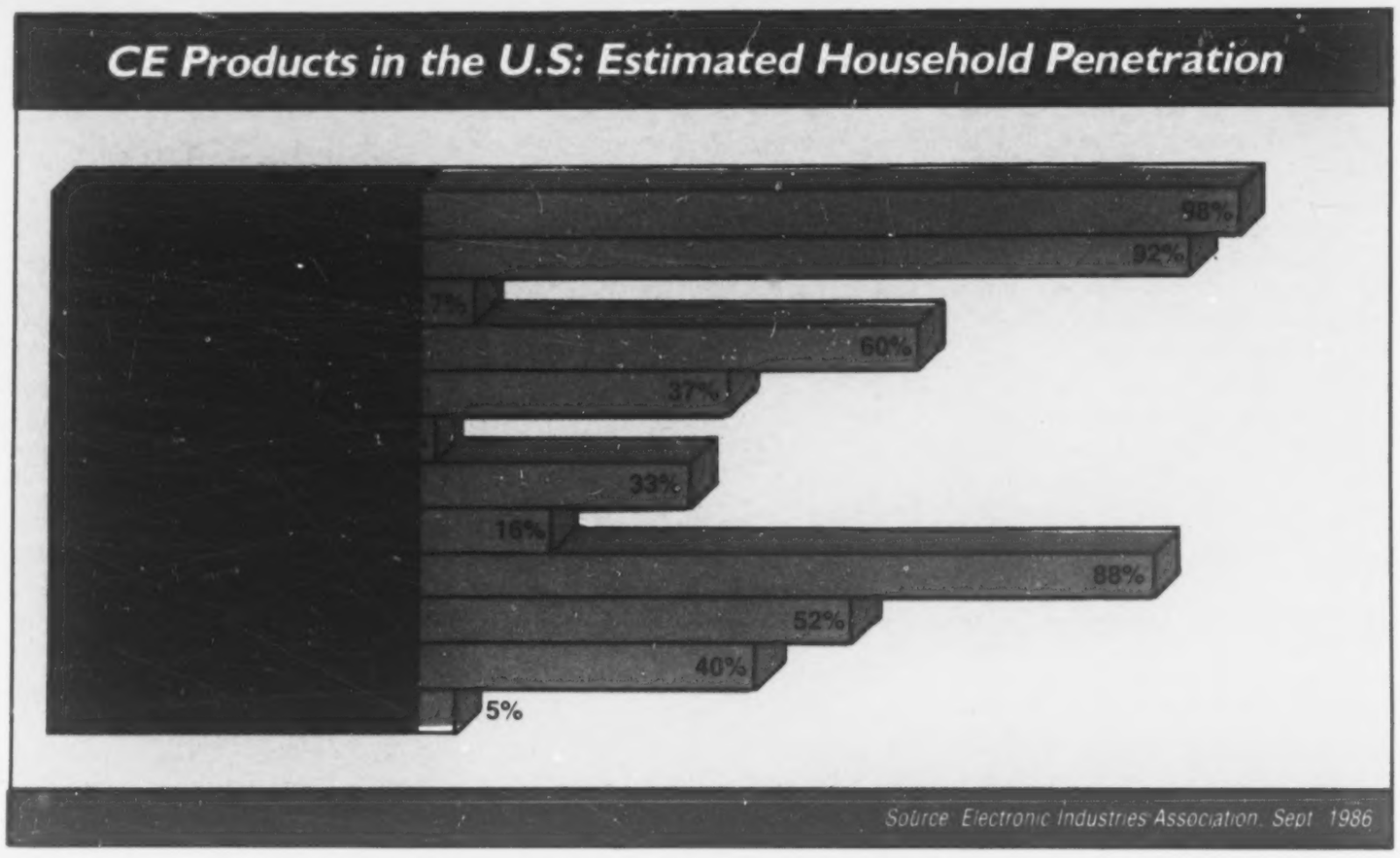
Although high price points have kept some discounters from testing camcorders, several chains introduced models this past Christmas. Jamesway sold the Panasonic camera, while Caldor went with the Kodak 8mm system.

The biggest question troubling discounters is which format to pursue, 8mm, VHS-C, or VHS. Several buyers put a vote of confidence in for VHS, which averages as high as an estimated 70% of camcorder volume.

An aura of mystery surrounds the issue of digital audio tape players. Although mock-up prototypes were shown in Chicago last July by Sony, JVC, Mitsubishi and Denon, no one knows if a real player will make its debut at the show. And if it does, at what price and in what form, home or auto?

"If it is at the show, we'll at least have some idea of how long before it is ready for the discount market," Zurlo said.

Louis Kircos, secretary treasurer for Handleman, said, "The real impact is still a few years off. What we see long-term is that CD will be for the home, DAT for the car."



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RTA: Style, Quality Build Sales

Nationwide DSN Report

Discount chains are cashing in on strong sales of ready-to-assemble furniture as consumers appear to be more receptive to the improved quality and style of RTA goods.

Although entertainment centers, utility carts and home, office and storage furniture have been reported as the industry's big sellers, many retailers and manufacturers believe consumers now are ready for RTA furniture in other rooms in the house, specifically the bedroom. This RTA furniture, should look more like "conventional" furniture with style features like rounded lines, moldings, wood grains and decorative handles, they said.

Discount stores account for the largest share of all RTA furniture sales, reported *Furniture Today*, a weekly trade journal, estimating that discounters garnered 33% of the total $500 million worth of domestic and imported RTA furniture shipped in the U.S. in 1986.

To meet the growing demand and capitalize on the profitability of the category, some retailers are allotting more floor space to RTA furniture.

In October, Clover, the 21-store Pennsylvania-based chain, expanded its RTA area, providing more space with a gondola run and carpeted 30-in. high platform for display with stock stored underneath.

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Survey: Chains Predict Gain in '87 RTA Furniture Sales

Nationwide DSN Report

A *DSN* survey finds that discounters anticipate an average of 23% sales growth in their ready-to-assemble (RTA) furniture lines this year, and many will increase the number of sku's they carry in furniture and housewares departments.

Furnishings with a white solid finish are likely to be candidates for these additions as the traditional top performers, oak and walnut, lose some of their luster.

The poll of the top discount chains in the country shows that 52% will offer shoppers more RTA sku's in 1987 than they did last year.

In addition, 40% intend to maintain the number of furniture options they offered in 1986, while the remaining 8% said they will cut the RTA assortment in their stores this year.

Furniture with an oak finish, ranked the most popular by 88% of those surveyed, is expected to have less appeal during the next 12 months. Only 72% of the discounters surveyed said oak is expected to be the most popular during 1987.

Walnut finish, second in popularity to oak (28% considered it the most popular RTA finish) also is expected to lose some of its appeal during 1987. Only 16% of the discounters believe walnut will be the most popular during 1987.

Taking up some of the slack from oak and walnut was a solid white finish. Even though none of the retailers surveyed now rate solid white furniture among the most popular types of RTA finishes, 12% said they expect it to become more popular over the next 12 months.

When selecting furniture for their departments, buyers said product quality and the manufacturer's defect rate were the most crucial factors. Of those surveyed, 92% cited these two factors as most important. About 76% cited retail price points, and 72% cited vendor reputation as essential criteria for doing business.

While the best selling furniture carried an average price tag of $69.99, the range of prices was broad. The average low-end price point was $19.99, while the average high-ticket RTA item was $199.99.

In terms of category profitability, the average discounter said everyday furniture margins were 38%, dropping to 27% on promotion.

Wall storage or entertainment centers are the single most important type of RTA furniture offered in stores, said 40% of discounters surveyed. Microwave furniture ranks second, with 28% of respondents considering it essential to RTA sales.

Partly because of the sales of microwave stands and partly because some discounters haven't established a separate furnishings department, housewares departments were cited by 48% of respondents as the area used to merchandise furniture.

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Discounters Rate Quality as Key Factor In Buying RTA

Manufacturer's Defective Rate	92%
Product Quality	92
Retail Price Points	76
Manufacturer Reputation	72
Past Experience with Manufacturer	68
Manufactured in U.S.	36
Consumer Advertising Support	24
Availability of Co-op Advertising	20
In-store Servicing	16

Source: Lebhar-Friedman Research/DSN

RTA Furniture Gains In Quality, Acceptance

(Continued from page 41)

Prior to this renovation, "if you had a sample, you couldn't display it in the same exact square footage as you stored it," said Jan Clausing of Clover. So far, 11 or 12 of the chain's stores have the new RTA look, with four or five more locations scheduled for renovation.

Jamesway, the 106-unit, New Jersey-based discount chain, also elevates its RTA furniture on a 3-ft. high display with packaged goods underneath.

And some discounters that used to show just a few "items," now have 200 running feet of complete lines showing in their stores, RTA suppliers said.

From KD to RTA

Ready-to-assemble furniture has come a long way from its former knock-down (KD) fringe category of just 10 years ago. Reflected even in the name itself, a dramatic change has taken place in the category, particularly in the last several years.

KD, which carried a negative connotation, was perceived by shoppers as cheap, boxy storage units. In contrast, RTA reflects consumer trends toward better quality and a good value in furniture that can be easily assembled at home. Much of RTA furniture has been upgraded to the point of competing with some "real" preassembled furniture. And this is only beginning.

"I think just changing the name from KD to RTA helps the industry," said Clausing.

Several manufacturers cited the European market as an example of what is to come here. One vendor put it simply when he said, "European RTA looks like 'furniture.' They've had hidden fasteners for 10 years."

In the U.S., RTA furniture makes up somewhere between 4% and 6% of the furniture business. In Europe, however, RTA comprises a steady 30% to 36% of the furniture marketplace. And manufacturers here hope to catch up by making RTA products that look good and are reasonably priced.

Frank Aquila, of Affordable Furniture, Dowagiac, Mich., said, "The business has doubled in the past five years" and predicted, "It will double again in the next five years." His company has prepared for this growth by expanding facilities, investing almost $20 million in two years.

Foremost Furniture, a division of Sauder Woodworking, Archbold, Ohio, has tripled its warehouse space in the past few years to accommodate the growing demand, in addition to upgrading its overall operations. "We're meeting the customer's needs with a value product that's easy to assemble with good instructions and a warranty," said president Maynard Sauder.

Paul A. Gusdorf, chairman of the board at Gusdorf Corp., St. Louis, said, "The industry has progressed in the past several years more than it has in the past 10 to 15 years. And, in the last 10, as much as in the past 50."

Gusdorf began making so-called "lifestyle" furniture a few years ago: bedroom dressers and cocktail and end tables. He said the new variety and quality make the goods

(Continued on page 44)

	Currently	Next 12 Months
Oak	88%	72%
Walnut	28	16
Pecan	4	4
White Solid	—	12
Black Solid	—	—

RTA Stock Increased

(Continued from page 41)

In addition, 44% said sales are made through a furniture department. Juvenile, consumer electronics and hardware were other departments where discounters positioned furniture.

Imports were stocked by 80% of the top discounters questioned. On average, 13% of the RTA category was comprised of imported furniture.

As for brands carried, Foremost Furniture was cited by 68% of the discounters surveyed; O'Sullivan Industries was stocked by 32%; Affordable Furniture was carried by 28%; Gusdorf was mentioned by 20%, and American Forest Products, 16%.

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